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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [PREL](#) [EINV](#) [PINR](#) [IZ](#) [TU](#) [EUN](#)
SUBJECT: IRAQ AND THE NABUCCO PIPELINE

REF: A. BAGHDAD 01960

[B](#). BAGHDAD 01250

[C](#). ANKARA 1031 (NOTAL)

Classified By: Classified by DCM for Assistance Transition Patricia Haslach, reasons 1.4 (b,d)

[1](#). (C) Summary: At the Nabucco pipeline summit meeting in Ankara on July 13, Iraqi Prime Minister Maliki made an unexpected pledge to supply roughly half of the pipeline's projected capacity by 2015. The announcement reflects Maliki's ambitions to see Iraq as a significant partner of Turkey and Europe. But it does not reflect realities on the ground, since the GOI has no plan to build the infrastructure needed to meet this pledge, nor to allocate future natural gas extraction between exports and meeting pressing domestic needs. In terms of U.S. policy, the way forward to get Iraqi natural gas into Nabucco is identical to our broader goal of seeing Iraq increase oil output to provide the resources to fund Iraqi development: encouraging and supporting (a) increased international investment in the sector, (b) resolution of Kurd-Arab disputes over hydrocarbons, and (c) a long-term energy strategy. End summary.

The Out of Gas Plan

[2](#). (C) PM Maliki's attendance at the July 13 Nabucco summit in Ankara (ref C) came as a surprise. In discussions with PAO following the summit, GOI Spokesman Ali Al-Dabbagh - a Maliki confidante who travelled to Ankara ahead of the prime minister - said Turkish PM Erdogan personally lobbied Maliki to attend the summit. Dabbagh cast both the decision to attend and the pledge of Iraqi fuel for Nabucco in political terms, noting the pipeline's impact on decreasing Europe's dependence on Russia. While Maliki said publicly that the GOI aimed to supply 15 billion cubic meters of gas annually to Nabucco by 2015, he made clear in private discussions that this would only be possible once annual oil production reached 6.6 million barrels per day, roughly triple current production. This is the GOI target for 2015 although, as noted below, it does not have a clear plan to reach this target.

[3](#). (C) Follow-up discussions with senior Ministry of Oil (MoO) officials suggest that the MoO was not involved in preparations for the summit announcement. The MoO Acting DG for Planning, Waddah Shareef, told EconOff on July 23 that the MoO does not have a plan in the works to export natural gas to Nabucco. He said that the MoO wanted to eventually export natural gas but at present is focused on meeting domestic demand, and primarily the rapidly expanding need for gas to fuel electricity generation. Waddah speculated that Iraq should be able to provide "some gas" for export in approximately six years, but admitted there is no plan to back this up.

¶4. (C) On July 27 Deputy Oil Minister Abdul-Kareem Luaibi, responsible for upstream development, told EconOff that Iraq would not have any gas available for export for at least ten years. Luaibi's assessment is also not based on any firm planning, but rather his own feeling that the needs of the Iraqi people (i.e., power generation and industrial development) must come first. He did concede that with massive amounts of foreign capital and expertise Iraq could potentially meet the pledge made by Maliki. But Luaibi said he believes the poor investment climate in Iraq and the absence of agreement on hydrocarbons legislation will delay necessary investment. Further, he does not believe international oil companies (IOCs) are interested in natural gas projects in Iraq, given the fact that near-term gas extraction will be devoted to domestic usage.

Politicians Doing what Politicians Do

¶5. (C) Dr. Abdul-Hadi Al-Hassani, Deputy Chair of the Parliamentary Oil and Gas Committee and a political ally of PM Maliki, told EconOff that he saw Maliki's Ankara announcement largely as a political statement. He saw this as a GOI move to prevent Turkey from cutting deals on natural gas development directly with the Kurdistan Regional Government (KRG). Hassani confirmed the importance of Iraq building strategic partnerships with Turkey and Europe through Nabucco, but said that this can only come after the needs of the Iraqi people are met.

Comment: Way forward for USG

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¶6. (C) Iraq has the world's tenth largest natural gas reserves. In theory it has the capacity to meet the pledge made by Maliki in Turkey, while at the same time meeting domestic needs (which, in addition to power generation and industrial development, includes injecting significant quantities of natural gas into oil fields to improve oil extraction). But as Maliki admitted in private discussions, notwithstanding the political desire to become a major supplier of natural gas to Europe, the reality is that this goal can only be met once the GOI's ambitious plans to jumpstart oil production and export are achieved. This process has proven painfully slow.

¶7. (C) The recommended USG policy steps to bring Iraqi natural gas into Nabucco are essentially identical to our efforts to encourage increased oil production and export, as well as our parallel efforts to reduce Arab-Kurd tension over hydrocarbon resources. We need to encourage and support GOI efforts to (a) accelerate the entry into Iraq of IOCs to boost both oil and natural gas production, (b) resolve disputes with the KRG over hydrocarbon legislation, which will accelerate development of hydrocarbon resources in both KRG- and GOI-controlled fields, and (c) complete a long-delayed strategy for development of the energy sector which defines how much natural gas is required for domestic use and how much available for export, and also introduces rational pricing schemes for electricity and other fuels (note: the GOI has recently agreed that the World Bank will take over funding for this strategy; details and timeline are now being finalized). As important, we need to continue our practice of cautioning Turkey and others from bypassing Baghdad and trying to work hydrocarbon deals directly with the KRG: while the pressure of such deals can spur Baghdad into action, any move to consummate cross-border deals or begin exports without central government approval would surely provoke Kurd-Arab conflict.

¶8. (C) The effort to get Iraqi gas into Nabucco is now an integral part of the broader USG strategy to get Iraq to develop its hydrocarbon resources in a manner that advances

our goal of seeing a sovereign, stable and self-reliant Iraq.

Nabucco-specific engagement with the GOI will help advance the linked goals of getting Iraqi gas into Nabucco and accelerating development of the oil and gas sector. European states that will benefit from Nabucco have a stronger incentive to engage. We are already working with other embassies in Baghdad to send a consistent message to the GOI and KRG on the points above and the way forward; we need to coordinate even more closely with Turkey, EU member states, and the European Commission. Embassy recommends that Washington consider the following the following Nabucco-related steps: (a) expand existing USG discussions on Nabucco with Turkey and the EU to include harmonization of our messages to the GOI and KRG along the lines above, and (b) send a senior USG delegation to Baghdad to continue the dialogue launched in Ankara, using the visit as an opportunity to press the points above.

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